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UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION

AAA

How Agriculture, Industry, Labor, and Government Can Work Together for a \$100,000,000,000 Income

Adapted from an address by Henry A. Wallace, Secretary of Agriculture, at the third annual National Farm Institute at Des Moines, Iowa, February 18, 1939

HIGHLIGHTS.—For 10 consecutive years farmers have been suffering both from the loss of a large part of their export markets and from the loss of a large part of their home market. Is it any wonder that agriculture is sick? Is it any wonder that, in spite of the splendid efforts of 4 million farmers who have taken part in the national farm programs, agriculture cannot get completely well? We must face the fact that agriculture is not going to get out of its troubles until the national economy, at least, if not the world economy, is in a healthy state.

Income nearly double.—The total farm cash income in 1937 and 1938 has been nearly double what it was in 1932. The 1939 AAA farm program, now going forward, represents agriculture's own contribution toward solving the maladjustments that beset the Nation. All advance reports indicate that participation in the farm program will be increased over 1938. Through this program, improved and strengthened so as to give the most effective continuing protection to farm prices and incomes, farmers can and will do much to help their situation.

But, valuable and essential as the farm program is, action on the agricultural front cannot by itself fully solve the farm problem. Part of the solution must be found in the reopening of markets overseas and in the expansion of markets at home.

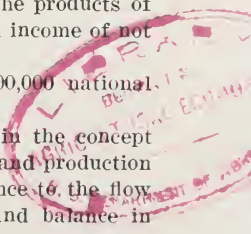
Group cooperation is vital.—From the standpoint of agriculture it is absolutely vital that the leaders of industry and the leaders of labor get together with the leaders of agriculture and the leaders of Government to achieve abundant production, abundant distribution, and abundant consumption of the products of both farm and city. We should drive all our efforts at a national income of not less than \$100,000,000,000.

What are the requisites of a sound approach to a \$100,000,000,000 national income?

Balance.—In my estimation the first requisite is to be found in the concept of balance. There should be balance between the price and wage and production policies followed by industry and agriculture, balance with reference to the flow of capital, balance in credit policies, balance in foreign trade, and balance in the setting of transportation and other public-utility rates.

Confidence.—A second requisite to a sound approach to a \$100,000,000,000 income is confidence.

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It would seem to be just as important for the Government to follow stable and well-considered spending and investment policies for productive and social purposes as for private business to do so. That means, first, Government activities ought not to be suddenly curtailed without regard to the effect on the course of business. But since budget considerations make it impossible for Government to match in full the outlays that private business normally makes, it means, second, the sensible thing would be to encourage private capital and get it to flowing as it ought to flow.

Give and take.—A third requisite to a sound approach to a one-hundred-billion-dollar national income is willingness of the various groups to cooperate with each other in the interests of all. That means that the give-and-take spirit must permeate all through agriculture and all through labor and all through industry. For what really counts is not victory in a petty squabble over the sharing of the pie but the making of a bigger pie in which all may share.

Full employment and production.—The real question is how business, labor, and farmers can manage to work together so that they develop price and production policies which lead to increasing and full employment and production—the objective that we all desire.

The establishment of a central clearing house where the policies of industry, labor, agriculture, and Government can be tested in the light of the general welfare would be one definite step toward such a program of abundance. Such a central clearing house need not be located in the Government, though it should have the benefit of the best judgment of Government experts on the matters considered. Dictatorships declare it is impossible for these three great groups to cooperate efficiently with a democratic government. America says it can and will be done.

THIS conference of agriculture, industry, and labor has been of the deepest significance for the entire country. One hundred and fifty years ago, when the Nation was founded, no such three-way conference would have been or could have been held, for agriculture was the principal form of economic activity and neither labor nor industry, as distinct from agriculture, was of any great importance.

Now, with the country grown up, each of these three groups has a place of far-reaching importance in the national life. Their place is not specifically recognized in the Constitution, nor in the State and local charters. These charters of Government set up the Federal Union, the States, the counties, the townships, and the cities and villages as political entities, and Government operates through them all. But, more and more as time has passed, Government has had to be concerned with economic affairs and not merely, as in the beginning, with the making and enforcement of laws for the protection of life and property. And whenever Government gets into the economic field, it finds that agriculture, labor, and industry are inevitably the three great spheres with which it is concerned.

Although representatives of the people have been coming together in the halls of the Capitol at the seat of the National Government for the last 150 years, this is the first time, so far as we know, that representatives of these three great economic groups have met together anywhere to discuss the fundamental relationships of their

common problems. Such an event deserves to be noted and applauded in the pages of history. This conference is the first of its kind, but it likely will not be the last.

Not only the fact that this conference is being held but the spirit in which it is being held is of great moment. This conference was called not in a hostile spirit but in a friendly one. The printed announcement referred to it as "an institute centering on the communities and conflicts of interest of these three great groups, with a view to lessening misunderstanding and to accelerating the process of accommodation through frank exploration together of the problems affecting all." If that statesmanlike approach were always adopted by the leaders of these three groups as they considered their common problems then our national future would be secure beyond any shadow of doubt.

The discussions brought out many interesting and important facts about inflexibilities in our economic system. Their existence is now widely recognized, even by our classical economists who hold that the ideal economic system would be one that was wholly flexible. Probably farmers are more conscious of these inflexibilities and maladjustments than any other group.

It is an old complaint of farmers that when they have something to sell they have to take what is offered, but when they want to buy something they have to pay what is asked. In other words, the prices of the things farmers produce have a habit of moving freely and unpredictably up and down, while the prices of many other commodities move very little, if at all.

There is much difference of opinion as to whether these price rigidities are the cause of the economic maladjustments that have plagued our country for the last 10 years, or whether the price rigidities are themselves the symptoms of still deeper causal factors.

Whatever the cause may be, here is the situation we find in the United States:

First. Production of unneeded amounts of some farm commodities—particularly wheat and cotton—along with too little production of nonfarm commodities, such as houses and a great variety of manufactured articles that are used in houses and in people's daily lives.

Second. An excess of perhaps 10 million city workers over the number that private industry today is prepared to employ.

Third. An excess of population on the farms, consisting partly of unemployed from the cities who have sought refuge in the country and partly of young people who normally would leave the farm if jobs were open in private industry.

Fourth. An excess of plant capacity in our city industry over the facilities needed to produce for the markets available at present levels of employment and consumer buying power.

Fifth. An excess of financial resources, which because of lack of opportunity for profitable investment are not being used.

Sixth. Technological advances in both industry and agriculture that displace more people than they provide with jobs.

Seventh. World conditions that make impossible a healthy foreign trade.

Eighth. A large portion of our population—both on farms and in cities—lacking sufficient quantities of the nourishing food they ought to have, lacking adequate clothing, dwelling in miserable houses, and generally having a standard of living far below what we have come to consider a decent American standard.

As we look about us at glutted markets in cotton and wheat and at resources and productive facilities that are not in use, we might think at first that the main trouble was too much of everything. But as we look at people's actual circumstances, we know that millions are suffering from having too little of many things they really need.

All three major groups—farmers, business, and labor—have contributed in one way or another to the scarcity of goods consumed. Farmers by producing too much of some goods, more than could be used, indirectly have caused a scarcity of jobs in the cities. The surplus farm production has sent down farm prices, farm incomes, and farm buying power, with the result that industrial production and employment could not hold up in the face of the fallen markets. There is a second way in which surplus farm production has resulted in scarcity. When too much livestock feed was produced surpluses were wasted instead of being conserved for use when drought struck.

The sad truth is that industry and labor, acting in what they have conceived to be their own best interests and with the best of motives, have also followed policies that have meant scarcity of nonfarm goods for all. The scarcity for which they are responsible comes, not from producing too much, as in the case of agriculture, but from producing too little.

In this situation agriculture is placed at a great relative disadvantage. In return for a total volume of agricultural production averaging in the last 2 years 6 percent greater than in 1929, the 1938 income per person living on farms would buy about 10 percent less of city goods than in 1929. But the average city person at the end of 1938 could buy 10 percent more in the way of food with his income than he could in 1929, even though factory production in the last 2 years averaged 20 percent less than in 1929.

Organized business has sought protection and economic security through stability in price and profits. Organized labor has sought to improve its economic position through wage rates, and organized farmers have likewise sought a fairer share of the national income through price policies.

Unorganized farmers, unorganized labor, and unorganized business feel that it is time for the leaders of industry, labor, agriculture, and government to work out policies that will bring abundance instead of scarcity of nonfarm goods.

Farmers have been producing abundant quantities of food and fiber, and while they want to avoid unmarketable surpluses, they want to keep on providing ample quantities to supply people's ordinary needs. They want to supply additional consumption for those of low incomes. But in their view it is high time for the other groups to begin to think in constructive terms about the need for producing and distributing greater quantities of manufactured commodities. Farmers are interested in the welfare of labor, its income, and its ability to purchase more farm products. They don't want to climb by pulling labor down, for they know that any group that gets an advantage will not be able to keep it if other groups are hurt.

What farmers really want is for industry and labor to get busy and match the abundance of agriculture. There is a triple reason for this. One is that farmers themselves are suffering from a scarcity of manufactured goods. The second is that unemployment in the cities cuts into the market for farm products and reduces the amount of cash farmers can get for what they raise. The third is that farmers would like to see city jobs open up for the boys and girls for whom there is no opportunity on the farm.

For 10 consecutive years, farmers have been suffering both from the loss of a large part of their export markets and from the loss of a large part of their home market. Is it any wonder that agriculture is sick? Is it any wonder that in spite of the splendid efforts of 4 million farmers who have taken part in the national farm programs, agriculture cannot get completely well? We must face the fact that agriculture is not going to get out of its troubles until the national economy, at least, if not the world economy, is in a healthy state.

In the face of conditions that in 1932 were so out of joint as to seem well nigh hopeless, the farmers of the United States during the last 6 years have tackled their problems with remarkable energy and skill. In spite of great variations in the weather, in spite of a Supreme Court decision which upset all they had been doing for 21½ years, in spite of incessant attacks from hostile interests, farmers have gone a long way to bring order out of disorder in their system of production and marketing. Farmers have proved that they can run their own show, and they're going to keep on running it.

The total farm cash income in 1937 and 1938 has been nearly double what it was in 1932. The 1939 AAA farm program, now going forward, represents agriculture's own contribution toward solving the maladjustments that beset the Nation. All advance reports indicate that participation in the farm program will be increased over 1938.

Through this program, improved and strengthened so as to give the most effective continuing protection to farm prices and incomes, farmers can and will do much to help their situation.

But valuable and essential as the farm program is, action on the agricultural front cannot by itself fully solve the farm problem. Part of the solution must be found in the reopening of markets overseas and in the expansion of markets at home. The international scene becomes more and more troubled, and therefore the home market offers the principal hope of an adequate outlet for agriculture's excess productive capacity. The home market, too, is woefully inadequate as long as industry and labor, consciously or unconsciously, are following policies that lead to scarcity of goods, scarcity of employment, and scarcity of purchasing power.

From the standpoint of agriculture, it is absolutely vital that the leaders of industry and the leaders of labor get together with the leaders of agriculture and the leaders of Government to achieve abundant production, abundant distribution, and abundant consumption of the products of both farm and city. Many of us hope that farmers make that demand, and keep on making that demand, until it is heard.

Looking at the problem from the national standpoint, the condition of our country is reflected in the figures for the national income. From a high of about eighty billions in 1929 our income fell to around forty billions in 1932. The recovery measures taken under the leadership of President Roosevelt have helped to restore the total three-quarters of the way back to the 1929 level. The national income reached seventy billions in 1937 and fell back below sixty-five billions in 1938. Now economists tell us the total this year may be around seventy billions once more. But our population now is 8 percent greater than it was in 1929, and to have a flow of wealth equal to what we enjoyed in the twenties our national income ought to be around ninety billions. Even that figure is less than the income we ought to have, considering our national resources and our technical progress. Many of us think we should drive all our efforts at a national income of not less than \$100,000,000,000.

What would that mean to the workers in our cities? What would it mean to the people on our farms?

Studies have shown that 67 percent of the national income is paid out in wages and salaries. In other words, if the national income were what it ought to be, and if this same proportion were maintained, nearly \$25,000,000,000 more would be going into the pockets of city workers.

Farmers would like to see that happen, for out of every dollar that the wage earner gets 30 cents goes to the grocer and butcher for food. An increase of thirty-five billions of the national income would mean an increase of \$7,000,000,000 expended for food at retail. Out of this

amount farmers would get about half. In other words, raising the national income to \$100,000,000,000 would put three and one-half billion dollars more money into the farmers' pockets than they received in 1938. It would add around \$450,000,000 to the incomes of the Corn Belt hog producers.

When our national economy is operating smoothly, when everyone is doing useful work, and when goods and services are being freely exchanged, then there is the maximum of wealth to be divided up.

Farmers, if they are wise, will insist and keep on insisting that the first objective of agriculture, labor, and business cooperating with Government ought to be an increase in the total production of wealth. Once this increase is assured, then a fair division of what is produced will not be difficult to arrange.

What are the requisites of a sound approach to a \$100,000,000,000 national income?

My opinion is that the first requisite is to be found in the concept of balance.

A full and free exchange of goods and services will not be possible unless there is what might be called a progressive or continuing balance between the price and wage and production policies followed by industry and agriculture. If farm prices fall and city wages and prices stay up, then farmers are forced out of the market for what city people make, and city unemployment follows. If prices and profits of manufactured products are jacked up faster than wages and farm incomes, or if prices of manufactured products are maintained while their production is curtailed, business loses little time in going into a tailspin. If wages rise above the levels justified by prices, trouble is bound to ensue. The important thing is that wages and prices and production should be kept in step with each other, if production and distribution of needed goods are to be increased.

Balance is important also with reference to the flow of capital. This flow involves the investment and spending policies of both business and Government.

The life-insurance companies, the railroads, the power companies and other public utilities, and the big industrial and financial corporations all affect the course of business and the flow of national income by what they do. When all of these big corporations are floating stocks or bonds or utilizing financial reserves to invest in new capital goods, then business is likely to boom. In that case the investment of Government capital can be held to a minimum. But when all of these big corporations quit spending or investing at the same time, a depression is brought on; and to prevent human suffering, Government capital must fill the breach. Could not ways be found to coordinate the investment policies of private business, so that the flow of capital might be stabilized and balanced with needs?

Businessmen who are worried about the flow of Government capital might well spend more time and thought on how to get private capital to flowing in volume once more, and how to keep it from flowing too much when it does start to move faster.

Closely related to the question of a balanced flow of capital is the question of balance in credit policies. The flow of capital involves the flow of credit, and credit means debt.

Credit is involved also in the flow of goods to consumers. Installment selling, properly used, is valuable in facilitating this flow. But if installment selling is used to excess, and consumers' wages and salaries are mortgaged too far ahead, business assumes a pace that cannot be maintained, and the inevitable result is a severe set-back.

Another field in which balance is important is foreign trade. We must always remember that we cannot export unless we also import. Agriculture especially has a big stake in the export market, and the welfare of agriculture should be kept in the forefront when foreign-trade policies are considered.

Balance is vital, also, in the setting of transportation and other public-utility rates. When the railroads look for ways to make ends meet, an increase in freight rates is usually the first thought. That is what they did back in 1920, just at the time when agriculture was in the beginning stages of what proved to be a drastic deflation. There is no question that the increase in railroad rates, which hit farmers coming and going by cutting the returns on what they sold at the same time it increased the prices of what they bought, was a big factor in the severe and prolonged farm depression of the twenties and early thirties, and in the failure of more than 7,000 country banks. In the light of that experience, we may well ask if the present proposal of the railroads to force the motortrucks and other competitors to raise their rates to match the railroad rates, if carried into effect, would not deal agriculture another body blow. If the effect on agriculture were the same as before, business would suffer, too, and in the long run it is doubtful if the railroads themselves would benefit.

These various ways in which the concept of balance is important are cited to show that as we approach our national economic problems we should examine the *whole* picture, and try if we can to assess the ultimate effect on the entire economy of the policies we adopt.

A second requisite of a sound approach to a one-hundred-billion-dollar income is confidence. The kind of confidence we need is not that of the twenties, which proved to be based on sand, but confidence that is based on the firm foundation of policies well thought out. Take the matter of the Federal Budget, for example. One school of thought holds that as long as the Federal Government is paying out more than it is taking in, there can be no confidence.

This school points out that the contribution to business activity represented by 3 billions of money borrowed by the Government is only a fraction of the contribution that would be made by private business if private business were investing at its normal rate. The opposing school holds that there can be no confidence if millions of people are in fear from day to day and week to week of having their means of livelihood suddenly cut off. This opposing school points to the fact that every time the flow of Government money is drastically cut down, business goes into a slump.

My own view is that in a sense both schools are right. It would seem to be just as important for the Government to follow stable and well-considered spending and investment policies for productive and social purposes as for private business to do so. That means, first, that Government activities ought not to be suddenly curtailed without regard to the effect on the course of business. But since Budget considerations make it impossible for the Government to match in full the outlays that private business normally makes, it means, second, the sensible thing would be to encourage private capital and get it to flowing as it ought to flow. Can agriculture, industry, labor, and Government agree on these two principles? If they can, then why not declare a truce and call off the argument and concentrate on doing the job that needs to be done? We must carry out both principles. We must maintain Government activity as long as necessary. And we must encourage private capital to go back to work. That is the sound way, and the only sound way, to get the increase in business activity and national income which will increase Government revenues, decrease Government expenditures, and achieve the balanced budget which all of us so earnestly desire. The Nation needs more business, and that should be our first goal.

A third requisite to a sound approach to a one-hundred-billion-dollar national income is willingness of the various groups to cooperate with each other in the interests of all. That means that the give-and-take spirit must permeate all through agriculture and all through labor and all through industry. The members of each group must be willing to consider the problems of the other two, try to understand those problems, and be prepared to help in whatever adjustments are seen to be needed to promote general prosperity.

And it is important that no two of these groups form an alliance against the third. Farmers would certainly have a right to object if labor and industry entered into arrangements that completely ignored the welfare of agriculture. Businessmen would have a right to object if farmers and factory workers formed an alliance that ignored the needs of industry. Labor would have equal reason to object if agriculture and industry formed an alliance that was intended to hamstring labor. Any of these combinations, if intended

to isolate one of these three great groups, would be harmful to the general welfare and in the long run harmful to the groups that entered into them.

At various times in the past, farmers have been extremely suspicious of high finance, and have been inclined to think that nothing good could come out of Wall Street. More recently, however, many farmers have been opposed to organized labor. There is not time now to go into all the reasons for the divergence in point of view between some farmers and some factory workers. My firm belief is that farmers have everything to gain from an improvement in the conditions of labor for which organized labor has been striving. There is no real ground for the farmers' fear that agriculture will be injured by the legitimate activities of labor unions. The fact that city wages are what they are largely determines the aggregate national income.

If farmers want to look at their own problems in terms of money, this aggregate national income, as has been shown, determines farmers' money income. That is especially true for the dairy and livestock producers of the Middle West. And improvement of the working conditions of the lowest-paid workers is especially beneficial to farmers.

When \$100 is added to the annual income of the lowest-paid workers, the farmers are able to share immediately in that improvement, because around 40 percent of the low-wage earners' income is spent for food, whereas if \$100 is added to the annual income of the more well-to-do, only 10 to 20 percent is spent for food. If farmers only understand that situation, they will never allow themselves to be used as cat's-paws in any antilabor front secretly sponsored by the ultra-reactionary industrial interests, nor will they sanction antilabor tactics that are closely akin to the most brutal dictatorships of the Old World. If farmers really understand the situation, they will join hands with both labor and industry in every effort that means an increase in the wages and annual earnings of the underpaid.

For the truth is that the increased production which goes with a national income of \$100,000,000,000 would permit farmers to attain and maintain parity prices and parity income and at the same time permit labor to keep the gains it has made in its wage rates.

So, as agriculture, industry, and labor counsel together, it is important that they do so, not in a spirit of dissension but in a spirit of good will. For what really counts is not victory in a petty squabble over the sharing of the pie, but the making of a bigger pie in which all may share.

However, in discussing the requisites to a sound approach to a \$100,000,000,000 national income, we shall need to pay some attention also to the machinery of economic democracy needed to attain it.

We must recognize that more than half of the business of the Nation is transacted through corporations. Can the corporations be improved as an instrumentality to serve the general welfare?

An interesting suggestion was brought forward recently by Chairman Douglas of the Securities and Exchange Commission. He made the point that corporations doing a large-scale business might function more efficiently if directors were placed on salary and served full time. This suggestion might be well worth trying out. The corporation is an institution which gets its charter from the State and which exists by virtue of consent of the State. Even though it is operated for private profit, its existence is presumed to serve the general welfare. The naming of full-time directors, as suggested by Chairman Douglas, might be one means by which the activities of the individual corporation could be started toward squaring with the best interests of all the other groups.

Perhaps some day those who direct the policies of corporations will recognize not only their responsibilities to their stockholders but to their labor, to the buyers of their products, and to the public. It would be a grand thing if our corporations would arrange to have not only their stockholders but their labor, the buyers of their products, and the public represented on their boards of directors. Not only would such a development help to obtain the cooperation and coordination that is needed for a \$100,000,000,000 national income, but it would be a practical step toward preventing the type of regimentation of business by Government which prevails in several countries overseas.

When we ask how business, labor, and farmers can cooperate for increased national income we must face facts as they are. We must face the fact that there are many seeming conflicts between the interests of labor, industry, and agriculture, as well as conflicts between various elements within each of these three great groups. The first step in resolving these conflicts is a recognition that through the democratic method of setting commonly shared objectives progress can be made.

The real question of today is how business, labor, and farmers can manage to work together so that they develop price and production policies which lead to increasing and full employment and production—the objective that we all desire.

The establishment of a central clearing house where the policies of industry, labor, agriculture, and Government can be tested in the light of the general welfare, would be one definite step toward such a program of abundance. Such a central clearing house need not be located in the Government, though it should have the benefit of the best judgment of Government experts on the matters considered. Probably the plan most consistent with our traditions of democracy

would be for agriculture, industry, and labor to form their own council, on their own initiative, and entirely independent of the Government but prepared always to cooperate with the Government in promoting the prosperity of all groups. It should, if possible, be biased only on behalf of the general welfare.

The council, if one is formed, should try to define what is meant by the general welfare, find out whether certain policies help or injure the general welfare, and work to create a better understanding of what is needed to improve the general welfare. The council could improve the mutual understanding of the problems of the different groups and the need for keeping the activities of the different groups in balance with each other. This greater mutual understanding would in itself build mutual confidence. Furthermore, the council would be in a better position than any other type of agency to obtain reliable explanations of governmental policies in the matters of spending, debt, and regulation, which directly affect confidence. It could avoid unwarranted rumors of governmental policies never contemplated. It could make recommendations concerning proposed or current policies.

It is suggested that business, labor, and agriculture, acting on their own initiative, now take steps to establish such a council. It is suggested, also, that this council give its immediate consideration to the development of a concerted program of expansion in the volume of industrial and commercial activity and to the price and wage policies in each industry which would be consistent with such a program of expansion. It may find that a large part of such a program can be carried through by voluntary action by industries themselves. It may also find that certain parts of the program would require the assistance of Government to carry them into action. It could then call upon Government for such assistance as it felt was necessary in aiding this program of increased production.

Such a council of agriculture, industry, and labor would have no power except the power that comes from clear analysis of national problems and straightforward presentation of conclusions to the groups and agencies concerned and to the general public. Such a council would not bring Utopia, but it would be a constructive forward step in the evolution of a true economic democracy.

The most important thing of all, as we work toward a larger national income and greater abundance for all our people, will be the willingness of each of these great groups to forget whatever differences they may have had in the past and join together in building a greater and a finer America. Dictatorships declare it is impossible for these three great groups to cooperate efficiently with a democratic government. America says it can and will be done.